

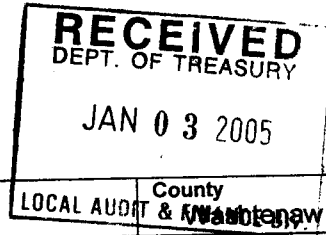
DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan
81-8002
FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended September 30, 2004

505
- AUDIT & FINANCE DIV.

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.



Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Dexter District Library		County Washtenaw	
Audit Date September 30, 2004		Opinion Date November 29, 2004		Date Accountant Report Submitted to State: November 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

November 29, 2004

To the Library Board
Dexter District Library
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Dexter District Library, Washtenaw County, Michigan as of and for the year ended September 30, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dexter District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Dexter District Library, Washtenaw County, Michigan as of September 30, 2004, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of October 1, 2003.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2004

This section of the Library's annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year ended September 30, 2004. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the past year. Assets as of September 30, 2004, totaled \$768,741.00, of which \$326,842.00 were current assets and \$441,899.00 represented capital assets net of depreciation.

Overall revenues were approximately \$462,004.00. Overall expenses were approximately \$419,580.00

The tax base increased by 6.97%.

The Library did not incur any new debt during the year. The Library purchased approximately \$25,833.00 in capital assets.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Library and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Library in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the Library's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2004

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

All of the activities of the Library are reported as governmental activities. At this time, the Library only maintains a General Fund. The Library has no additional funds for specialized services or debt service accounted separately.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Library's funds, focusing on significant (major) funds not the Library as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Library Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Library has the following types of funds:

Governmental Funds: All of the Library's activities are included in the general fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information.

FINANCIAL ANALYSIS OF THE LIBRARY AS A WHOLE

The Library's combined net assets for the year ended September 30, 2004, were \$760,850.00. Since this is the first year the Library is reporting according to GASB 34 requirements, this will serve as the Library's baseline net asset amount. Original purchase values were estimated in cases where the original purchase price for an individual asset was not available.

During the year, the Library did acquire new capital asset items such as ultraviolet coating for exterior windows and additional shelving units for books and other Library materials.

Net assets for the Library increased by \$55,542.00 during the year ending September 30, 2004.

FINANCIAL ANALYSIS OF THE LIBRARY'S FUNDS

General Fund: This fund is used to record all the Library's financial activities not required to be recorded in a separate fund. The major source of revenue for this fund comes from the Library District's tax base. Additional sources of revenue in the General Fund come from State aid, local penal fines, fees for in-house services such as copying, overdue fines, grants, interest income and gifts.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets: Additions to the Library this year include new wall mount shelving (\$18,850.00) and ultraviolet window coating (\$1,650.00).

Long-Term Debt: Compensated absences payable were \$7,890.66 at September 30, 2004.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Library's plans for the future are to plan for an increased millage and bond issue to build an expanded facility. The Library is currently holding public forums and focus groups to help define an acceptable location and project scope.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2004

CONTACTING THE LIBRARY'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Library's accountability for the revenues it receives. If you have any questions regarding this report, please contact Paul McCann, Dexter District Library Director at 8040 Fourth Street, Dexter, Michigan, 48130, phone 734-426-4477 between the hours of 9:00 AM and 5:00 PM Monday through Friday.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
September 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	176 081 77
Investments	144 022 41
Petty cash	50 00
Taxes receivable	<u>6 688 11</u>
Total Current Assets	<u>326 842 29</u>
NONCURRENT ASSETS:	
Capital Assets	548 592 00
Less: Accumulated Depreciation	<u>(106 693 48)</u>
Total Noncurrent Assets	<u>441 898 52</u>
TOTAL ASSETS	<u>768 740 81</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES:	
Compensated absences payable	<u>7 890 66</u>
Total Noncurrent Liabilities	<u>7 890 66</u>
Total Liabilities	<u>7 890 66</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	441 898 52
Unrestricted	<u>318 951 63</u>
Total Net Assets	<u>760 850 15</u>
TOTAL LIABILITIES AND NET ASSETS	<u>768 740 81</u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended September 30, 2004

	<u>Program Revenue</u>	<u>Governmental Activities</u>
	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	
Governmental Activities:		
District Library	<u>(406 461 70)</u>	<u>(355 815 85)</u>
General Revenues:		
Property taxes		355 044 71
State aid		14 097 23
Penal fines		33 683 61
Interest		3 414 94
Miscellaneous		<u>5 117 71</u>
Total General Revenues		<u>411 358 20</u>
Change in net assets		55 542 35
Net assets, beginning of year		<u>705 307 80</u>
Net Assets, End of Year		<u><u>760 850 15</u></u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2004

	<u>Total (General)</u>
<u>Assets</u>	
Cash in bank	176 081 77
Investments	144 022 41
Petty cash	50 00
Taxes receivable	<u>6 688 11</u>
Total Assets	<u>326 842 29</u>
<u>Liabilities and Fund Equity</u>	
Liabilities	<u>-</u>
Total liabilities	<u>-</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>326 842 29</u>
Total fund equity	<u>326 842 29</u>
Total Liabilities and Fund Equity	<u>326 842 29</u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS
September 30, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUND	326 842 29
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	548 592 00
Accumulated depreciation	(106 693 48)
Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds	<u>(7 890 66)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>760 850 15</u></u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
Year ended September 30, 2004

	<u>Total (General)</u>
Revenues:	
Property taxes	355 044 71
State aid	14 097 23
Penal fines	33 683 61
Interest	3 414 94
Miscellaneous	<u>55 763 56</u>
Total revenues	<u>462 004 05</u>
Expenditures:	
Culture and recreation:	
Library:	
Salaries	206 873 84
Employee benefits	17 146 60
Payroll taxes	15 825 79
Supplies	12 003 96
Books and materials	63 542 51
Utilities	8 573 16
Insurance	7 647 50
Professional services	20 502 59
Cooperative fees	28 329 32
Memberships and dues	497 00
Repairs and maintenance	3 334 44
Miscellaneous	9 471 07
Capital outlay	<u>25 832 54</u>
Total Expenditures	<u>419 580 32</u>
Excess of revenues over expenditures	42 423 73
Fund balance, October 1	<u>284 418 56</u>
Fund Balance, September 30	<u><u>326 842 29</u></u>

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year ended September 30, 2004

NET CHANGE IN FUND BALANCE – TOTAL GOVERNMENTAL FUND 42 423 73

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(12 713 92)
Capital Outlay	<u>25 832 54</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 55 542 35

The accompanying notes are an integral part of these financial statements.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Dexter District Library, Washtenaw County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Library contain all the Library funds that are controlled by or dependent on the Library's executive or legislative branches.

The reporting entity is the Dexter District Library. The Library is governed by an elected Library Board. As required by generally accepted accounting principles, these financial statements present the Library as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Library. Included are all transactions related to the approved current operating budget.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Library. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls. The Library 2003 tax roll millage rate was .4517 mills.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	50 years
Equipment	3-50 years

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Library's governmental funds is recorded as an expenditure and liability in the respective funds. Employees may accumulate up to one year's days of vacation leave and are not paid for unused sick leave upon termination of employment.

Post-employment Benefits

The Library provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective October 1, 2003, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Library's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Library's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Library's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$441,898.52.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Library Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Library Board.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2004

Note 2 – Budgets and Budgetary Accounting (continued)

5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Library Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Library Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Library Board has designated four banks for the deposit of Library funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Library's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>176 081 77</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>76 081 77</u>
Total Deposits	<u>176 081 77</u>

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2004

Note 3 – Deposits and Investments (continued)

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

The GASB Statement No. 3 risk disclosures for the Library's investments are categorized as follows:

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
<u>Investment Type</u>				
Risk-Categorized:				
Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized:				
Financial Institution Pooled Funds				<u>144 022 41</u>
Total Investments				<u>144 022 41</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 4 – Capital Assets

Capital asset activity of the Library's Governmental activities for the current year was as follows:

	<u>Balance 10/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/04</u>
Land	29 533 00	-	-	29 533 00
Building	420 285 00	1 650 00	-	421 935 00
Equipment	<u>72 941 46</u>	<u>24 182 54</u>	<u>-</u>	<u>97 124 00</u>
Total	522 759 46	25 832 54	-	548 592 00
Accumulated Depreciation	<u>(93 979 56)</u>	<u>(12 713 92)</u>	<u>-</u>	<u>(106 693 48)</u>
Net Capital Assets	<u>428 779 90</u>	<u>13 118 62</u>	<u>-</u>	<u>441 898 52</u>

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
September 30, 2004

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 10/1/03	Additions	Deductions	Balance 9/30/04
Compensated absences	7 628 66	262 00	-	7 890 66
Total	7 628 66	262 00	-	7 890 66

Note 6 – Deferred Compensation Plan

The Library matches one half of the cost of an annuity of each full-time employee's gross wages up to a maximum of 5%. The total amount paid by the Library during the fiscal year ended September 30, 2004, was \$4,943.68.

Note 7 – Pension Plan

The Library does not have a pension plan.

Note 8 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

DEXTER DISTRICT LIBRARY
Washtenaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended September 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	353 942 00	353 942 00	355 044 71	1 102 71
State aid	14 087 00	14 087 00	14 097 23	10 23
Penal fines	25 500 00	25 500 00	33 683 61	8 183 61
Interest	3 000 00	3 000 00	3 414 94	414 94
Miscellaneous	24 350 00	24 350 00	55 763 56	31 413 56
Total revenues	<u>420 879 00</u>	<u>420 879 00</u>	<u>462 004 05</u>	<u>41 125 05</u>
Expenditures:				
Culture and recreation:				
Library:				
Salaries	224 291 00	224 291 00	206 873 84	(17 417 16)
Employee benefits	22 041 00	22 041 00	17 146 60	(4 894 40)
Payroll taxes	17 158 00	17 158 00	15 825 79	(1 332 21)
Supplies	8 109 00	12 009 00	12 003 96	(5 04)
Books and materials	59 975 00	69 975 00	63 542 51	(6 432 49)
Utilities	8 974 00	8 974 00	8 573 16	(400 84)
Insurance	8 037 00	8 037 00	7 647 50	(389 50)
Professional services	9 662 00	21 662 00	20 502 59	(1 159 41)
Cooperative fees	33 948 00	33 948 00	28 329 32	(5 618 68)
Memberships and dues	650 00	650 00	497 00	(153 00)
Repairs and maintenance	4 550 00	4 550 00	3 334 44	(1 215 56)
Miscellaneous	15 184 00	15 184 00	9 471 07	(5 712 93)
Capital outlay	8 300 00	25 882 79	25 832 54	(50 25)
Total expenditures	<u>420 879 00</u>	<u>464 361 79</u>	<u>419 580 32</u>	<u>(44 781 47)</u>
Excess (deficiency) of revenues over expenditures	-	(43 482 79)	42 423 73	85 906 52
Fund balance, October 1	-	43 482 79	284 418 56	240 935 77
Fund Balance, September 30	<u>-</u>	<u>-</u>	<u>326 842 29</u>	<u>326 842 29</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

November 29, 2004

To the Library Board
Dexter District Library
Washtenaw County, Michigan

We have audited the financial statements of the Dexter District Library for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Dexter District Library in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Library Board
Dexter District Library
Washtenaw County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended September 30, 2004. The implementation of this pronouncement for the Dexter District Library began with the year ended September 30, 2004. The daily operations and recording transactions did not change significantly, however, the Library is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

EMPLOYEE TIME RECORD KEEPING

The Library employees currently maintain their own time sheets to record their time worked. We recommend that the Library utilize a time clock to automatically record the hours worked by employees.

CASH HANDLING PROCEDURES

We have reviewed the procedures used by Library personnel to handle cash received at the service desk. We recommend that a mandatory receipt be prepared for every monetary transaction with a duplicate copy remaining in the cash receipt book. We recommend the daily preparation of a reconciliation of the monies and the daily preparation of the bank deposit. We recommend that monies be deposited in the bank every day or every other day. We recommend that the Treasurer of the Library be involved in the deposit process by either making the deposits or by reviewing, approving and signing the summary deposit forms on an ongoing basis.

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

To the Library Board
Dexter District Library
Washtenaw County, Michigan

SEGREGATION OF DUTIES (continued)

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Library's financial statements and this communication of these matters does not affect our report on the Library's financial statements, dated September 30, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants